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ESG Around The World: Singapore

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Sustainable development has long been a policy priority for the Singapore government, much before it became a key global concern. However, Singapore has generally avoided an overly prescriptive regulatory regime with respect to Singapore companies in this regard, and has instead preferred a more flexible approach that gives companies time and incentives to adapt to gradually increasing regulatory requirements.

While Singapore companies have traditionally scored high on several governance metrics, they have been relatively slower to pursue environmental and social targets in a similar manner.

This has been due to a combination of factors including the relatively large number of government-linked or family-owned companies that are relatively less influenced by institutional investors; a lack of historical and comparable environmental, social and governance data; a limited appreciation of the link between the successful integration of ESG policies and long-term investment performance; and a more flexible regulatory regime.

However, with the Singapore government keen to establish the country as a leading international financial center and a key player in the sustainable finance ecosystem, this initially guarded attitude toward ESG investment and reporting has progressively evolved along with developments in key ESG initiatives led by the government and other regulatory bodies.

We discuss below the key regulatory frameworks that Singapore has adopted to achieve these goals.

Sustainability Reporting for SGX-Listed Issuers

In 2016, in order to better prepare issuers for reporting against anticipated global baseline sustainability reporting standards, the Singapore Exchange, or SGX, introduced a phased approach to mandatory climate reporting based on the recommendations of the Task Force on Climate-Related Financial Disclosures, or TCFD.

Issuers are required to submit an annual sustainability report addressing the following primary components:

1. Material ESG factors — including the criteria and process by which it has selected such factors.

2. Climate-related disclosures consistent with TCFD recommendations — keeping in mind TCFD's recommended four pillars of disclosures: governance, strategy, risk management, and metrics and targets.

3. Policies, practices, performance and targets — setting out targets for the forthcoming year concerning each material ESG factor identified.

4. Sustainability reporting framework — choosing a framework appropriate to the issuer's industry and business model.

5. Board statement and associated governance structure for sustainability practices — confirming the board has considered sustainability issues in its business and strategy, and has overseen the management and monitoring of material ESG factors.

Where an issuer is unable to report on any of these primary components, it is required to explain what it does instead and its reasons for not reporting. However, from Jan. 1, 2023, to Dec. 31, 2023, climate-related disclosures are mandatory for issuers in the (1) financial; (2) agriculture, food and forestry products; and (3) energy industries.

From Jan 1, 2024, to Dec. 31, 2024, mandatory climate-related disclosures extend to the (1) materials and building, and (2) transportation industries.

The SGX has recommended a list of 27 core ESG metrics to aid sustainability reporting. It has also produced a sustainability reporting guide and other resources to help issuers with their reporting.

MAS Guidelines on Environmental Risk Management

The Monetary Authority of Singapore, or MAS, has continued to take proactive steps to advance the ESG agenda as part of its Green Finance Action Plan that was launched in 2019. In connection with the Green Finance Action Plan and Singapore's goal to be a leading center for green finance in Asia, the MAS in December 2020 issued Guidelines on Environmental Risk Management, or the ERM Guidelines, for banks,[1] insurers[2] and asset managers.[3]

The ERM Guidelines require the following:

1. That the boards and senior management of these entities incorporate environmental considerations into their strategies and business plans;

2. That these entities develop environmental risk management frameworks and policies, and actively monitor and manage such risks; and

3. That they make regular disclosures of their environmental risks and how they are managing them.

In the case of asset managers, the ERM Guidelines recognize that they may have different roles in the management of a fund, and that the guidelines apply to those that have discretionary authority over investments. Where such authority is delegated, however, asset managers are still required to retain overall responsibility for environmental risk management and should ensure their expectations in this regard are conveyed to submanagers or advisers.

Particularly in sectors with higher environmental risk, asset managers are required to develop sector-specific guidance to aid their investment personnel in assessing such risks.

In 2021, the Green Finance Industry Taskforce also published a set of best practices in its Handbook on Implementing Environmental Risk Management.[4] The handbook supplements the ERM Guidelines and includes recommendations from the TCFD aimed at improving the quality of climate-related financial information reporting.

MAS Circular on Disclosure and Reporting Guidelines for Retail ESG Funds

The MAS published this circular in 2022 to mitigate the risk of greenwashing, in light of the increasing number of retail funds with an ESG investment focus.[5]

Such funds are now subject to various requirements, including that they (1) use sustainable investment strategies that are "inclusionary" — that they should not merely use negative screening or merely incorporate ESG considerations in their investment process, (2) invest at least two-thirds of their net asset value in accordance with such investment strategy, and (3) comply with specific disclosure and reporting guidelines.

Singapore Green Bond Framework

In 2022, the Singapore Ministry of Finance published the Singapore Green Bond Framework as a set of guidelines aligned with international principles and market practices for public sector green bond issuances.[6] The framework is meant to be a benchmark for private-sector issuers.

The framework sets out guidelines for categories of projects that may be financed with Singapore sovereign green bonds, project evaluation and selection criteria, guidelines on the management of proceeds, reporting, and external review. These projects will be undertaken in support of the Singapore Green Plan 2030, which is a nationwide movement to advance Singapore's sustainable development agenda.[7]

Project Greenprint

The MAS launched Project Greenprint in 2020 as a series of initiatives aimed at using technology and data to improve transparency in the ESG ecosystem.[8] These include the following platforms.

An ESG Disclosure Portal

ESGenome,[9] one of the digital platforms of Project Greenprint launched by the MAS and SGX, is meant to improve access to ESG data by allowing reporting companies to upload sustainability data that will be mapped against various standards and frameworks, and provide consent-based access to authorized recipients.

A Data Orchestrator

Project Greenprint aggregates sustainability data from various sources — ESG data providers, utilities providers, the ESG Disclosure Portal and other sectoral platforms — and provides consent-based access to authorized recipients. The platform aims to facilitate data analytics to better support investment and financing decisions.

An ESG Registry

The ESGpedia registry aims to be a blockchain-powered data platform that provides a record of ESG data from multiple certification bodies and verified sources across various sectors.[10] This is aimed at improving tracking and analysis of sustainability commitments, and mitigating greenwashing.

The registry is currently focused on companies in the agrifood, building and construction, transport and logistics, carbon credit, and renewable energy sectors.

The Greenprint Marketplace

The Greeprint marketplace connects green fintech and green technology providers to investors, financial institutions and corporations. It is expected to launch soon.

Green Taxonomy

The Green Finance Industry Taskforce also developed a taxonomy to define activities classified as green and transitioning toward green. When it started to do so, the idea of transition activities was novel and most taxonomies only defined what was green.

The traffic light approach adopted by the task force — which classifies activities as green (environmentally sustainable), amber (transitional) or red (harmful) based on their contributions to climate change mitigation — was a notable innovation that has been also gaining traction globally, including in the Association of Southeast Asian Nations and the European Union.

Conclusion

As sustainability efforts are pursued globally with greater urgency, Singapore has proactively put in place a regulatory framework that seeks to:

1. Develop credible sustainable financial products and markets, and combat greenwashing;

2. Encourage — and in some instances require — companies and financial institutions to take affirmative steps in pursuit of ESG objectives; and

3. Develop standardized frameworks for ESG disclosures.

The regulatory regime in this space is constantly evolving in Singapore, so companies should closely track these developments to ensure compliance.

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